



It Takes Money to Make Money:

**The need to aggressively capitalize small minority-owned
businesses in New Orleans**

CUEE Position Statement No. 1

September 2011

Background:

The gross disparity between white-owned and minority-owned businesses in New Orleans cannot be overstated.

According to the Census Bureau Survey of Business Owners released in June, 2011, Orleans Parish has 16,428 white-owned firms with yearly receipts totaling \$8.2 billion. Its 10,327 minority-owned firms have a combined receipt total of \$954 million. This puts the average receipts for a white-owned firm at \$503,000 per year, compared with a minority business average of \$92,400 per year. Of minorities surveyed, African-American firms fared worst, with average annual receipts of \$63,300¹.

This is especially detrimental when considering that minorities in general and African Americans specifically routinely face demonstrably higher costs in doing business. Adverse racial disparities have been documented in everything from vehicle purchases², to insurance coverage and rates³, to, most critically, access to capital. Analysis of Federal Reserve Data has found that even when all other aspects of applications are equal, "minority firms are twice as likely to be denied a loan application"⁴. Economist Robert Fairlie has identified insufficient capitalizations as one of the top reasons African-American firms stagnate and fail at a higher rate than other businesses in America⁵.

The long-standing and persistent financial discrimination faced by minority-owned firms has had a clear effect on the psychology of disenfranchised businesses in New Orleans. As an organization working closely with marginalized communities, CUEE sees first-hand the reluctance of entrepreneurs to expand, to hire, or to diversify in the face of a business environment that demeans them. Across the nation, minority-owned firms are "twice as likely to not apply for a loan because of fear of rejection"⁶. Like struggling families, businesses in distressed communities can become psychologically limited by what policy-makers, financial institutions, vendors, and technical assistance providers define as their "need" and "limitations" as "high-risk" cases.

¹ Please see Appendix 1 for further Survey of Business Owners comparisons for Orleans Parish.

² Mark A. Cohen, Vanderbilt University, "Imperfect Competition in Auto Lending: Subjective Mark-up, Racial Disparity, and Class Action Litigation." December 2006: p. 13-14. 8 Sept 2011 <https://mylada.org/files/Cohen%20Article%20Imperfect%20Competition%20in%20Auto%20Lending.pdf>.

³ Robert D. Bullard et al., "Race, Equity, and Smart Growth: Why People of Color Must Speak for Themselves." Environmental Justice Resource Center, 8 Sept 2011 <http://www.ejrc.cau.edu/raceequitysmartgrowth.htm#insur%20red>.

⁴ Robert Fairlie, "Closing the Gap: Exploring Minority Access to Capital and Contracting Opportunities," testimony before the U.S. Senate Committee on Small Business & Entrepreneurship; 3 March 2011.

⁵ Robert W. Fairlie and Alicia Robb, "The Causes of Racial Disparities in Business Performance," in National Poverty Center Policy Brief #12, October 2008.

⁶ Robert Fairlie, "Closing the Gap: Exploring Minority Access to Capital and Contracting Opportunities," testimony before the U.S. Senate Committee on Small Business & Entrepreneurship; 3 March 2011.

CUEE's Position:

The stagnation of minority-owned businesses ensures continuing economic disparity.

Both national studies and CUEE's own client evaluations have shown that minority-owned businesses hire non-white employees at a greater rate than white-owned businesses⁷. Yet of the 7,843 black-owned businesses in Orleans Parish, recent Census data indicates that only 391 have employees. In light of this, it is not surprising that the 2005-2009 unemployment rate in New Orleans among African-Americans was 17.9%, while that of whites was 4.8%⁸. Nor is it surprising, given that the average total receipts for black-owned businesses is \$63,000 per year, that the average income for African-American households is \$26,225 per year, while white households average \$60,512 per year⁹. Clearly, support for minority-owned businesses can and should be considered support for those living in our most disenfranchised communities.

Since overall receipts for minority-owned businesses in New Orleans are 9.5% of that for white-owned firms (receipts for African-American businesses alone are a mere 4.5%) the city's minority businesses have little capital with which to expand or to invest in other area businesses. **While it is clear that intense capitalization is necessary, it is also clear that this capital will need to come from outside traditional banking channels.** In addition to the documented racial biases in lending that result in higher interest rates, smaller credit lines, and outright denial of loan applications¹⁰, geographical discrimination ("red-lining") has been exacerbated by the current economic downturn, with the Justice Department seeing a record number of cases in 2010¹¹.

CUEE is therefore pursuing a dramatic increase in investment that will allow us to offer low-interest loans to established minority-owned businesses seeking to expand, diversify, or hire. These businesses should either be employers, or plan to employ. As a lender that understands the history and problems faced by our minority clients, minority businesses appreciate and rely on our support. In order to truly impact inequity in New Orleans and increase the overall economic diversity and stability of the region, support for minority-owned businesses must be large-scale and game changing – the financial equivalent of D-Day.

⁷ Michael A. Stoll et al, UCLA "Why are black employers more likely to hire African-Americans than white employers?" June 2001. 7 Sept 2011 http://www.northwestern.edu/ipr/jcpr/workingpapers/wpfiles/stoll_raphael_holzer.PDF and the CUEE Social Impact Report, 2010.

⁸ U.S. Census Bureau, American Community Survey 5 Year Estimates, New Orleans LA; 13 Sept 2011, <http://factfinder.census.gov>

⁹ GNOFair Housing Action Center, Strategies to Affirmatively Further Fair Housing, 28 April 2011; p. 20.

¹⁰ Robert Fairlie, "Closing the Gap: Exploring Minority Access to Capital and Contracting Opportunities," testimony before the U.S. Senate Committee on Small Business & Entrepreneurship; 3 March 2011.

¹¹ Claire Benson, "A Renewed Crackdown on Redlining," 5 May 2011. Bloomberg Businessweek; 1 October 2011 at http://www.businessweek.com/magazine/content/11_20/b4228031594062.htm